Newfoundland Labrador

The Economic Review 2009

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Cover Photo: Tankers in Conception Bay
Courtesy: Department of Finance

South Branch River
Courtesy: Department of Finance

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Global Economic Environment

New York Stock Exchange
Courtesy: Anders Brownworth (www.anders.com)

The World

2009 has been a difficult year for the global economy. Gross domestic product (GDP) declined sharply in all major nations in the fourth quarter of 2008 and the first quarter of 2009 as a recession took hold. The recession was triggered by a U.S. sub-prime mortgage crisis and a collapse in the American and European financial industries. In response to sharp declines in stock markets and GDP, governments throughout the world rolled out massive fiscal stimulus programs and slashed interest rates. Of the major world economies, only India and China managed to avoid slipping into recession, although both emerging economies saw their growth rates drop significantly. The International Monetary Fund (IMF) is currently projecting world GDP will shrink by 1.1% in 2009.

Most experts believe the global economy bottomed out at the end of the first quarter or early in the second quarter of 2009. Japan, Germany and France all showed unexpected positive GDP growth in the second quarter and most forecasters have upgraded their GDP predictions for the third quarter of 2009 and beyond for many of the world's major economies.

Japan's GDP is expected to contract 5.4% in 2009 and is expected to show positive growth of 1.7% in 2010. The economic outlook for Japan has been improving in recent months reflecting increased demand from China and India. Japan posted positive second-quarter growth of 0.7% and positive third-quarter growth of 1.2%.

China's GDP growth is projected to be 8.5% this year and 9.0% in 2010. Similarly, India is expected to show growth of 5.4% this year and 6.4% in 2010. Much of the economic activity in the two nations has been driven by robust public sector stimulus programs

and expansionary monetary policy. In China, government spending is expected to account for around 80% of growth in 2009. This economic activity has spread throughout Southeast Asia and neighbouring regions and has improved the global economic outlook. In fact, in early October, Australia, a major trading partner with China, became the first G-20 nation to raise interest rates, signalling that the government believes lending is on the rebound and the need for monetary stimulus is declining.

Despite expectations that the recession is over and that a recovery is now underway, the path of economic growth in many countries remains uncertain. In the U.S. many major indicators, such as housing starts, mortgage delinquencies, consumer spending and unemployment, are sending mixed signals on the strength of the recovery. In Europe, the collapse of global financial markets is still playing havoc with the economy in the United Kingdom; while in Spain the bursting property bubble has helped to fuel unemployment, which is projected to hit 18.2% in 2009 and top 20% in 2010, up from 8.3% in 2007. Yet, in other regions of Europe signs of economic recovery appear much stronger, as reflected in Germany and France's positive GDP growth in the second quarter. Overall, economic growth in Europe in 2010 is not expected to be strong. The United Kingdom is forecasted to post 0.9% growth, while the Euro Area is projected to muster growth of only 0.3%.

Nonetheless, the consensus for the global economy heading into 2010 is positive, with the IMF projecting 3.1% growth.

GDP Growth (%)

	2009f	2010f
World	-1.1	3.1
Canada	-2.4	2.6
China	8.5	9.0
France	-2.4	0.9
Germany	-5.3	0.3
India	5.4	6.4
Italy	-5.1	0.2
Japan	-5.4	1.7
Russia	-7.5	1.5
Spain	-3.8	-0.7
United Kingdom	-4.4	0.9
United States	-2.5	2.4
Euro Area	-4.2	0.3

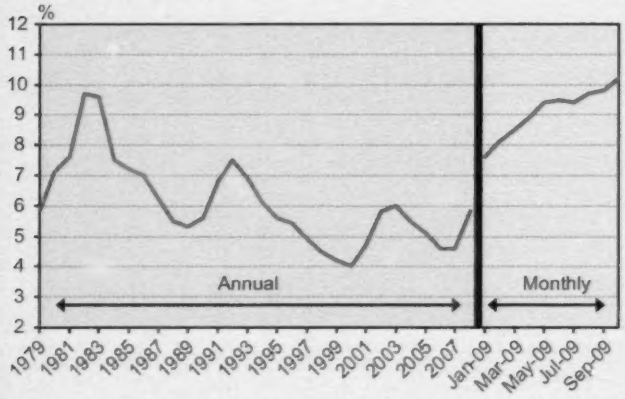
f: forecast
Source: Canada - Survey of Major Canadian Banks; U.S. - Survey of Professional Forecasters, U.S. Federal Reserve Bank of Philadelphia; all other jurisdictions - International Monetary Fund, October 2009.

United States

Most experts believe the recession in the U.S. is over. Third-quarter GDP numbers show the U.S. economy growing at an annualized rate of 2.8%, with housing sales and consumer spending showing improvement. Consumer spending showed positive growth in June, July and August and existing home sales were over five million, at an annualized rate, in September for the third straight month. Existing home sales had previously not been over five million since September of 2008. These positive trends are reflected in the U.S. Conference Board's Leading Economic Index, which was up 0.3% in October, marking the seventh straight month the index has risen.

U.S. Unemployment Rate

Annual Rates 1979-2008 & Monthly Rates for 2009



Source: U.S. Bureau of Labor Statistics

Growing confidence in the economy has also been reflected in stock markets. All three major U.S. markets bottomed out in early March, but have shown steady improvement since then. The Dow Jones Industrial Average has climbed by 57.6% since March, the S&P 500 Index by 61.3% and the NASDAQ Composite by 69.2%.

Although things are improving in the U.S., there are reasons for concern regarding the strength of recovery. Much of the improvement in consumer spending over the last three months has been a reflection of the "cash for clunkers" stimulus program in the automotive industry (which has since expired) and a tax credit for first-time home buyers (which was scheduled to expire on November 30, 2009 but was recently extended to April 30, 2010). With the expiration of the "cash for clunkers" program, automotive sales plummeted in September, falling from nearly 1.3 million in August to just over 750,000 in September. In addition, after the unemployment rate dropped in July (the first drop since April of 2008) it resumed its upward trend in August, hitting 10.2% in October, a level not seen since April of 1983.

With unemployment still climbing, mortgage delinquencies and personal bankruptcy filings showing few signs of abating and stimulus programs expiring there is a significant risk of consumer spending growth being muted in the coming months.

The U.S. economy is expected to contract 2.5% in 2009 and grow 2.4% in 2010.

Canada

Canada, at one-time ridiculed for the relative austerity of its banking system, is benefiting from the conservative approach to investing taken by its banks. Sub-prime mortgage defaults never infected the Canadian economy as they did in the U.S. and Europe, and as a result Canada avoided any serious internal threats to its financial system. However, Canada has by no means been exempt from the global recession. The economic pains that have been inflicted on Canada during the recession have largely been imported from its major trading partners. As the U.S. automotive industry crumbled earlier in the year and global consumer and industrial demand collapsed, Canada saw international demand for its commodities and manufactured products deteriorate.

However, Canada is currently benefitting from a rebound in commodity prices driven by increased demand from China and India. Real GDP effectively remained unchanged from June to August, while the Purchasing Managers' Index has been trending up since January, indicating increased activity in the manufacturing sector. Unemployment rates are starting to stabilize, having dropped slightly from 8.7% in August to 8.6% in October. The Toronto Stock Exchange has reflected these positive signs, growing by 53.0% since its March low.

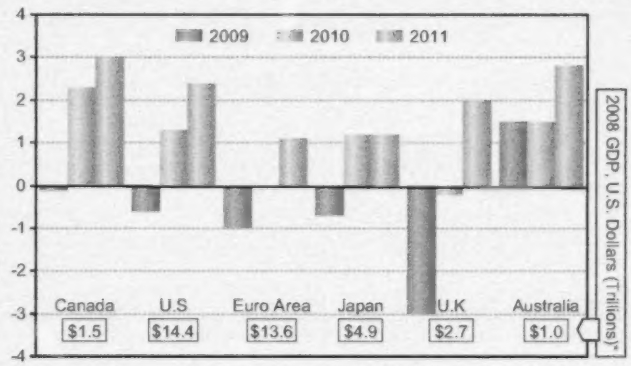
A risk for Canada in the coming months will come from a strengthening Canadian dollar. The dollar has climbed from a low of 77 cents US in March 2009 to roughly 94 cents recently—an approximate 22% appreciation in just eight months. The high Canadian dollar is already limiting the ability of exports to lead the recovery in Canada. Further appreciation in the coming months would put added downward pressure on exports. Additionally, the uncertain path of the U.S. recovery will pose a further risk to the Canadian recovery. Nevertheless, a survey of major Canadian banks has the Canadian economy shrinking by 2.4% in 2009 but growth of 2.6% in 2010.

Nature of Recovery: Major Factors at Play

For global recovery to become firmly entrenched in the next 12-18 months aggregate consumer demand must rebound. Government spending as a percent of GDP is relatively low, with limited growth potential, in most developed economies and stimulus spending that has flowed during the crisis is ultimately unsustainable. Further, without renewed consumer spending, investment is likely to be subdued and focused principally on rebuilding inventories depleted during the recession.

Traditionally consumer spending from North America, Europe and, to a lesser extent, Japan has driven global demand for goods and services due to the sheer size of the economies. But, as these economies struggle to cope with eroded public and private balance sheets and growing unemployment due to the recession, consumption growth within these developed economies is likely to be subdued, which could threaten the sustainability of global economic recovery.

2009-2011
Forecast Global Consumption Growth
(Annual Percentage Change)



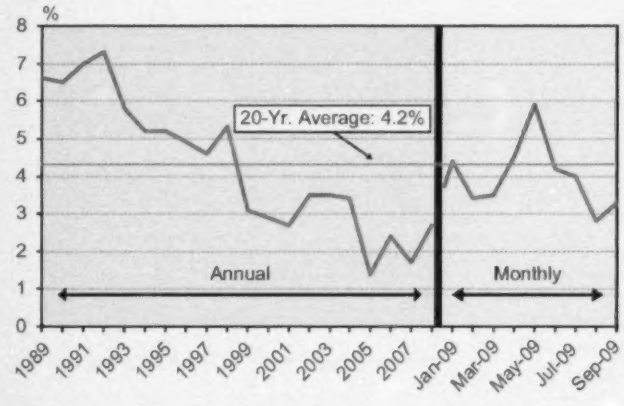
Source: Organization for Economic Co-operation and Development
*International Monetary Fund

In the U.S., for example, the collapse of financial and housing markets and soaring unemployment have damaged the wealth and confidence of the American consumer. By some estimates the recession has left individual balance sheets in such tatters that U.S. households would need to repay $1.4 trillion in debt until 2012 to make up for losses in asset values and restore their net wealth to its historical average of 500% of disposable income. Such repayments could negatively impact consumer spending growth. If the personal savings rate increases, as most experts are predicting, this repair period would be shortened by adding to asset values, but the cost would be a further stifling of short-term consumption.

Likewise, in Europe, consumption growth is likely to be constrained by financial and labour market issues. Like their American counterparts, many European consumers and firms saw the recession decimate wealth

U.S. Personal Savings as a Percent of Disposable Income

Seasonally Adjusted Annual Rates



Source: U.S. Bureau of Economic Analysis

as financial markets collapsed and housing values, especially in Ireland and Spain, declined sharply. The result has caused savings rates in the European Union to spike, with the European Commission estimating those rates to remain 2.5 percentage points above the 2008 level of 10.75%, on average, until 2011. This, combined with employment concerns, is limiting the prospects for consumption growth in Europe in the near term.

With consumption growth likely to be severely constrained in most of the developed world, new drivers of consumption will be needed to lead the recovery in the short term and maintain strong growth in the long term. This will mean a greater reliance on developing nations such as China, India and Brazil. However, there are also concerns for the prospect of robust consumption growth in some of these economies.

In China, currently the world's third largest economy behind the U.S. and Japan, the problem with relying on consumption to sustain the recovery is that individuals are traditionally savers, not consumers. A lack of social programs forces people to save large portions of what little income they have to pay for education, health care and other social services most Western citizens take for granted. Furthermore, there seems little promise of this changing, as cheap energy and artificially low borrowing costs have resulted in an overreliance on capital and an underutilization of labour. This is borne out by the fact that employment in China has grown by only 1% annually in recent years and wages and other incomes have fallen from 72% to just 55% of GDP. Government stimulus programs and huge corporate profits, which are being funneled back into the economy through investment, are currently keeping the economy moving in China. That said, given the size of the Chinese economy, any significant growth in consumer spending has the potential for a large impact on global demand. As consumers there become more affluent they will look to purchase luxury goods, the majority of which will have to be imported.

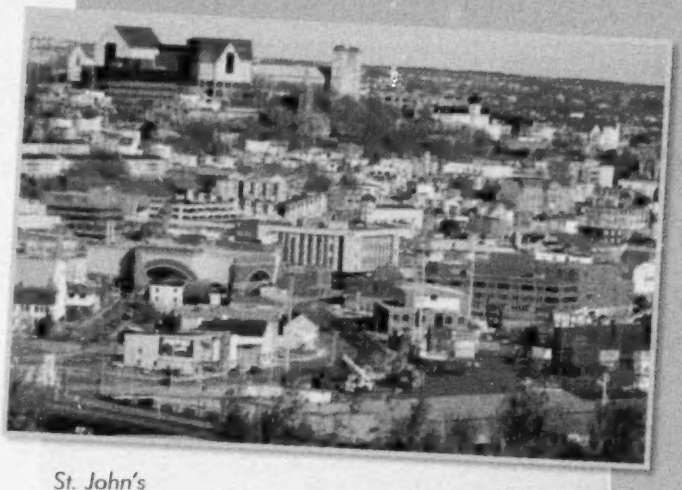
For Japan, even though it is benefitting from demand coming out of China and India, private consumption is not likely to be strong as manufacturing and export sectors in the country were hit hard by the recession. Unemployment is at record highs which, like in the U.S., is threatening consumption spending. On the bright side the newly elected Democratic Party of Japan is advocating a consumption-oriented growth strategy, as opposed to the export-oriented strategy that had been advocated by the previous ruling Liberal Democratic Party since the 1950s. In other emerging and developing nations where economic growth is gaining traction any rise in consumption may have only limited impact globally simply due to the relatively small size of these economies.

The combination of these factors constraining consumption growth in the major economies—even as prospects for growth in the sector strengthen in smaller and emerging economies—is why forecasters are projecting subdued economic growth coming out of the recession, relative to past recession recoveries.

Provincial Economic Overview

Economic Performance

2009 has been a difficult year for most economies throughout the world as countries deal with the collapse of financial markets and the resulting global recession. In Canada, all provinces, including Newfoundland and Labrador, are expected to record an annual decline in GDP and most provinces have posted employment losses in 2009.



St. John's

Courtesy: Department of Finance

In Newfoundland and Labrador, and Canada as a whole, the contraction in GDP is due mainly to declining exports. However, unlike the rest of the country, Newfoundland and Labrador's consumer spending and private sector investment have continued to grow this year. Government spending is also increasing with wage increases for public sector employees and higher infrastructure spending.

Newfoundland and Labrador's export sector has been hit hard by the recession. Real GDP is expected to decline 8.5% this year, due entirely to lower exports. Exports are expected to decrease substantially due to natural declines in oil production and recession related cuts in mineral, newsprint and fish production. Oil production was down 20.6% in the first nine months of 2009 compared to the same period in 2008. A substantial drop in oil, mineral and fish prices is also resulting in lower export values. In the first nine months of this year, the value of international exports from Newfoundland and Labrador fell by about 43%, the largest decline of all the provinces.

On the domestic front, however, Newfoundland and Labrador is faring much better than other provinces. Consumer confidence has been solid and consumers continue to spend. From January to September, retail sales increased 1.5%. This has been achieved despite

Economic Indicators

	2008e	2009f	2010f	2011f	2012f
GDP at Market Prices ($M)	31,277	23,297	25,717	27,792	27,588
% Change	10.7	-25.5	10.4	8.1	-0.7
% Change, real	0.5	-8.5	1.7	1.6	-0.4
% Change, real adjusted*	3.1	-1.9	2.8	2.0	0.4
Personal Income ($M)	15,641	16,109	16,748	17,529	18,156
% Change	5.8	3.0	4.0	4.7	3.6
% Change, real	2.9	2.6	1.8	2.5	1.1
Personal Disposable Income ($M)	12,562	13,012	13,463	14,088	14,597
% Change	7.6	3.6	3.5	4.6	3.6
% Change, real	4.5	3.2	1.3	2.5	1.1
Retail Sales ($M)	7,063	7,165	7,486	7,726	7,933
% Change	7.6	1.5	4.5	3.2	2.7
% Change, real	5.4	0.2	2.8	1.8	1.1
Consumer Price Index (2002=100)	114.3	114.7	117.2	119.6	122.6
% Change	2.9	0.4	2.1	2.1	2.5
Capital Investment ($M)	4,357	5,096	5,672	7,260	5,716
% Change	3.3	17.0	11.3	28.0	-21.3
% Change, real	-2.6	13.1	11.7	23.2	-21.2
Housing Starts (Units)	3,261	2,802	2,721	2,656	2,578
% Change	23.1	-14.1	-2.9	-2.4	-2.9
Employment (000s)	220.3	215.8	219.4	222.3	223.3
% Change	1.5	-2.0	1.7	1.3	0.4
Labour Force (000s)	253.8	253.7	256.7	258.7	258.6
% Change	1.0	-0.1	1.2	0.8	0.0
Unemployment Rate (%)	13.2	14.9	14.5	14.1	13.7
Population (000s)	506.4	508.9	511.1	512.5	513.0
% Change	0.0	0.5	0.4	0.3	0.1

* Adjusted GDP excludes production related income that will be earned by the non-resident owners of Newfoundland and Labrador mega-projects (oil projects and Voisey's Bay) to better reflect growth in economic activity that generates income for residents.

e: estimate; f: forecast, Department of Finance, November 2009

Source: Statistics Canada; Department of Finance

a significant (-11.7% January to September) decline in the sale of new cars (new car sales are estimated to comprise about 12% of total retail sales). All other provinces in Canada have recorded declines in retail sales this year. Income gains, combined with continued confidence in the economy, supported retail sales growth in this province.

Another sign of local economic strength is investment. Capital investment spending has been particularly strong in 2009—in the latest forecast it is expected to increase by 17%. Statistics Canada conducted a revised investment survey in the spring which indicated that growth in capital spending on non-residential construction and machinery and equipment in the province would be the strongest amongst all provinces in 2009. In fact, Saskatchewan at 3.2%, is the only other province expected to post positive investment growth this year. This strong outlook for provincial investment reflects increased major project expenditures and higher government infrastructure spending. While housing starts have cooled from the exceptionally high levels of 2008, activity remained high from a historical perspective. Amongst the provinces, Newfoundland and Labrador ranks second in housing start performance so far in 2009.

The government sector in this province has boosted domestic demand on several fronts. Collective agreements were reached with a number of large public sector unions resulting in solid wage gains. Both the federal and provincial governments embarked on significant stimulus spending this year to offset the impacts of the recession and to provide needed public infrastructure. These actions, and others, have helped to promote stability and foster confidence.

Labour Markets

Employment is expected to decline 2.0% in 2009 as the global recession negatively impacted many resource industries in the province. The shutdown of the Grand Falls-Windsor newsprint mill, widespread layoffs in the mining sector and low prices in the fishing industry, together with spinoff effects, all contributed to lower employment levels this year.

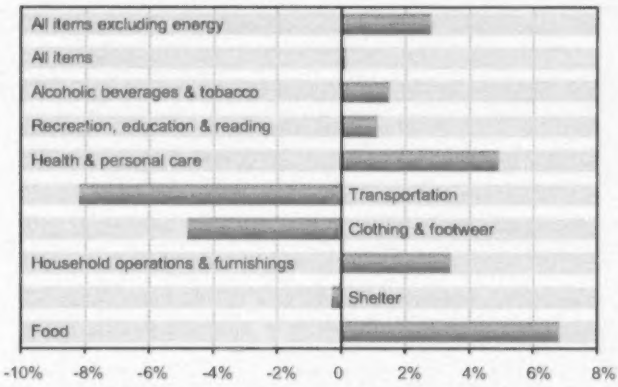
From January to October employment fell 2.9% on average. Employment began declining in December 2008 and recorded nine consecutive months of losses. Employment was up marginally in September but fell again in October. Regionally, most employment losses were experienced outside the St. John's Census Metropolitan Area, consistent with the location of many resource-based industries.

Despite the decline in employment, the labour force has been relatively stable, falling by only 0.1% in the first 10 months of 2009. The combination of employment losses and a relatively constant labour force has led to an increase in the unemployment rate of 2.4 percentage points. The unemployment rate averaged 15.5% January to October compared to 13.2% in the same period of 2008.

Wages continued to increase this year. Average weekly earnings (including overtime) rose 4.2% in the first nine months of 2009. Some of the factors supporting the gains in average weekly earnings are an increase in the minimum wage and pay raises in the public sector. Total labour income increased 4.1% in the first nine months of the year and total personal income is expected to rise 3.0% this year.

Percent Change in Consumer Price Index by Component

January to October 2009



Source: Statistics Canada; Department of Finance

Prices

On a year-over-year basis, the Consumer Price Index (CPI) was 0.1% higher in the first 10 months of 2009. Increases in the CPI were dampened considerably by lower energy prices. The energy index fell 16.4% in the first 10 months compared to the same period of 2008. Lower energy costs resulted in lower shelter (influenced by home heating fuel) and transportation (influenced by gasoline) components of the CPI. Food prices exerted upward pressure on the CPI, increasing by an average 6.8%. Food prices have been rising faster than the all-items index since mid-2008.

Population

Newfoundland and Labrador's population stood at 508,925 as of July 1, 2009, an increase of 0.5% compared to July 1, 2008. This is the largest increase since 1983.

Population growth was the result of positive net-migration of 2,800 which offset a natural decline in population (more deaths than births). This year marked the first significant net in-migration to the province in over 25 years and

the second consecutive year of positive migration flows. Several years of strong economic growth combined with factors such as major tax cuts, enhanced public services (increased spending and new infrastructure), significant personal income gains and, more importantly, a continued positive economic outlook have resulted in positive net in-migration in six of the last eight quarters. More recently, fewer job opportunities elsewhere, particularly in Ontario, are positively impacting local migration trends.

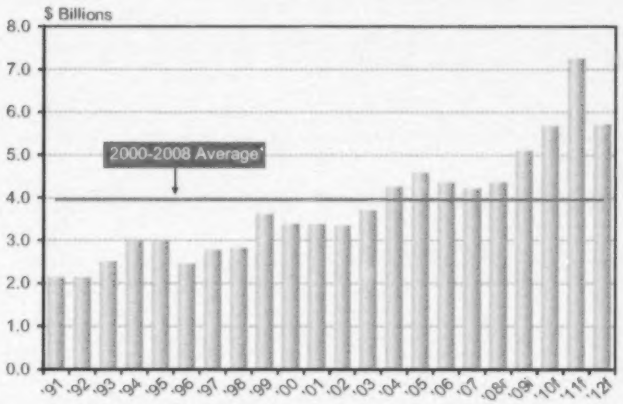
Medium-Term Outlook

Real GDP in Newfoundland and Labrador is expected to resume growth next year as the worldwide recession ends. An anticipated rebound in mineral production and increased construction activity on major projects will more than offset a decline in oil production. Other economic indicators such as employment, income and retail sales are also expected to post growth in 2010.

Beyond 2010, the economic outlook remains positive. While GDP growth will vary depending on major project timelines and oil production, other economic indicators such as employment and income are expected to continue to increase. In addition, the unemployment rate is expected to resume its downward trend and renewed consumer optimism is expected to produce stronger retail sales.

One of the biggest factors behind the province's positive economic outlook over the medium term is major project development and the associated high level of capital investment. Capital investment is expected to rise to unprecedented levels, increasing by over 10% next year and by a further 28% in 2011. Construction of the nickel

Capital Investment



r: revised; i: intentions; f: forecast
Source: Statistics Canada; Department of Finance

processing facility in Long Harbour; development of Hibernia South; continued expansion of White Rose satellite oil fields; and pre-engineering work for the Hebron project will all contribute to higher investment expenditures. Development of these projects will contribute significantly to increased employment and incomes in the province. Employment related to major project construction is expected to increase by about 1,300 to 4,700 person years in 2010, including spinoffs, and is expected to grow by a further 3,300 in 2011. Employment in the province is expected to rebound quicker from the 2009 recession than after any other recession since the 1970s.

The outlook for population is brighter than it has been for the past couple of decades. The current strength in domestic demand and continued optimism about the development of major projects are factors which have led to recent net in-migration and an increase in the province's population. The positive economic outlook for the province is expected to lead to further, albeit modest, increases in population over the medium term.

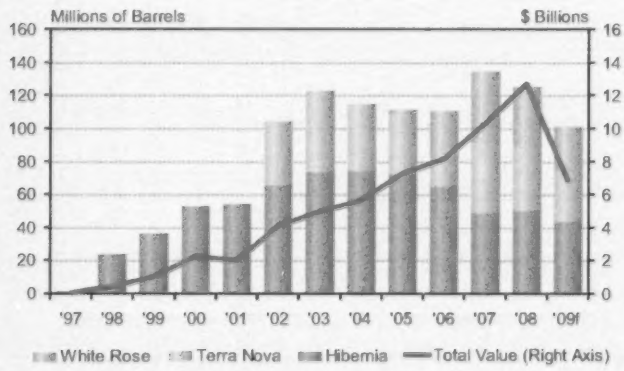
Oil Production

The oil and gas industry has become an increasingly important part of the Newfoundland and Labrador economy since production began in 1997. The industry accounted for almost 40% of the province's nominal GDP and 2% of provincial employment in 2008. Newfoundland and Labrador currently produces approximately 36% of Canada's conventional light crude oil.

Oil production from the province's three producing fields (outlined below) is expected to total 101.3 million barrels in 2009, a decrease of 23.9 million barrels (or 19.1%) relative to 2008. This drop reflects natural production declines as well as downtime at White Rose to tie-in the North Amethyst satellite field and operational issues at Terra Nova. The value of oil production is expected to decrease by approximately 45% in 2009 to $7 billion as a result of lower crude prices and production declines. The price of Brent crude oil is expected to average around US$60 per barrel in 2009, compared to US$97 in 2008.

The Stena Carron drillship is expected to drill a deep-water well in the Laurentian Basin later this year
Courtesy: photos.robbiemilstead.co.uk

Oil Production



Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Finance

Hibernia

Hibernia produced 33.8 million barrels of oil during the first nine months of 2009, down 4.0 million barrels (or 10%) from the same period last year. Production thus far in 2009 is moderately higher than forecasted in April due to improved gas flood and successful water control measures. For the year as a whole, production is expected to total 43.7 million barrels compared to 50.7 million barrels in 2008. The provincial government announced this past June that the Hibernia project has reached "payout", meaning that the province is now receiving a royalty rate of 30% of net revenues for oil extracted from the main part of the original Hibernia field.

On June 16, 2009 the province announced that a Memorandum of Understanding (MOU) had been reached for the development of the Hibernia South area. Development will occur via a series of platform and subsea wells.

Extraction from the AA Blocks (estimated reserves of 50 million barrels) will occur by drilling directly from the Hibernia Gravity Base Structure (GBS). This drilling is currently taking place and first oil from this area could occur in the fourth quarter of 2009. Oil produced from the AA Blocks will immediately be subject to a royalty rate of 42.5% of net revenues.

The remainder of the Hibernia South area (estimated reserves of 170 million barrels) will be developed in partnership with the province's energy corporation, Nalcor Energy, by means of a combination of platform drilling and a subsea tie-back to the Hibernia GBS. Under the terms of the MOU, Nalcor Energy - Oil and Gas will purchase a 10% equity stake in the Hibernia South Extension subsea tieback project for $30 million and will pay a proportional share of project costs and receive entitlement to a proportional share of project production. In addition to the 10% equity stake in the subsea tieback project, the province has negotiated higher royalty rates, which collectively top out at 50%.

Terra Nova

Terra Nova produced 22.5 million barrels during the first nine months of 2009, a decline of 6.6 million barrels (or 23%) over the same period in 2008. Production has been lower than expected as a result of a gear box failure on one of the facility's main power generators which has resulted in lower than planned gas injection volumes. These problems have since been corrected and production rates returned to normal in early October. Annual 2009 production is expected to total 31.8 million barrels compared with 37.6 million barrels in 2008.

White Rose

The White Rose field produced 18.4 million barrels in the first nine months of 2009, down 8.8 million barrels (or 32%) from the same period of 2008, but on track with earlier 2009 projections. Year-to-date production is lower as a result of natural declines at the original field in addition to required downtime to tie in the North Amethyst satellite field. Annual 2009 production is expected to total 25.8 million barrels compared with 37.0 in 2008.

The White Rose project has proposed satellite developments comprised of three distinct areas: North Amethyst, South White Rose Extension and West White Rose. The province, through Nalcor Energy, has a 5% equity stake in the White Rose satellite fields. Installation of the North Amethyst subsea equipment, the first of the satellite fields to be developed, is ongoing and first oil from the field is expected in the first quarter of 2010.

On November 23, 2009, Husky Energy announced it had discovered additional oil resources in the White Rose area. Best estimates indicate 60 million barrels of light crude. Initial studies indicate that these resources could be developed from the recently installed satellite infrastructure at North Amethyst.

Hebron

On August 20, 2008 the province signed the final agreement with the Hebron consortium to develop the Hebron oil field, the province's fourth stand alone offshore oil project. The Hebron field, which is estimated to contain 585 million barrels of recoverable reserves, will be developed using a Gravity Base Structure (GBS), similar to, but smaller than, the Hibernia GBS.

The province, through Nalcor Energy, has purchased a 4.9% equity stake in the Hebron project at a cost of $110 million and will pay a proportional share of project costs and receive entitlement to a proportional share of project production. Construction of the Hebron GBS will take place at the Bull Arm industrial fabrication site and additional fabrication work will take place at other fabrication facilties in the province. The project will create an estimated 4.1 million person hours of construction employment in the province. Construction of the GBS is expected to start in 2012 and first oil is expected as early as 2016.

Exploration

Offshore

- ExxonMobil completed a controlled-source electromagnetic survey in the Orphan Basin in mid-August. The survey collected line data on 1,829 km.
- ExxonMobil et al are planning further exploration drilling in the Orphan Basin subject to rig availability and regulatory approval.
- On April 8, 2009, StatoilHydro announced that it had encountered hydrocarbons while drilling the Mizzen O-16 exploration well in the Flemish Pass Basin. StatoilHydro submitted a significant discovery declaration application to the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) on September 18, 2009. The application is currently under review.
- Petro-Canada (now Suncor Energy) completed drilling the Ballicatters M-96 exploration well in the Jeanne D'Arc Basin in late October. At the company's discretion, well details may remain confidential for up to two years.

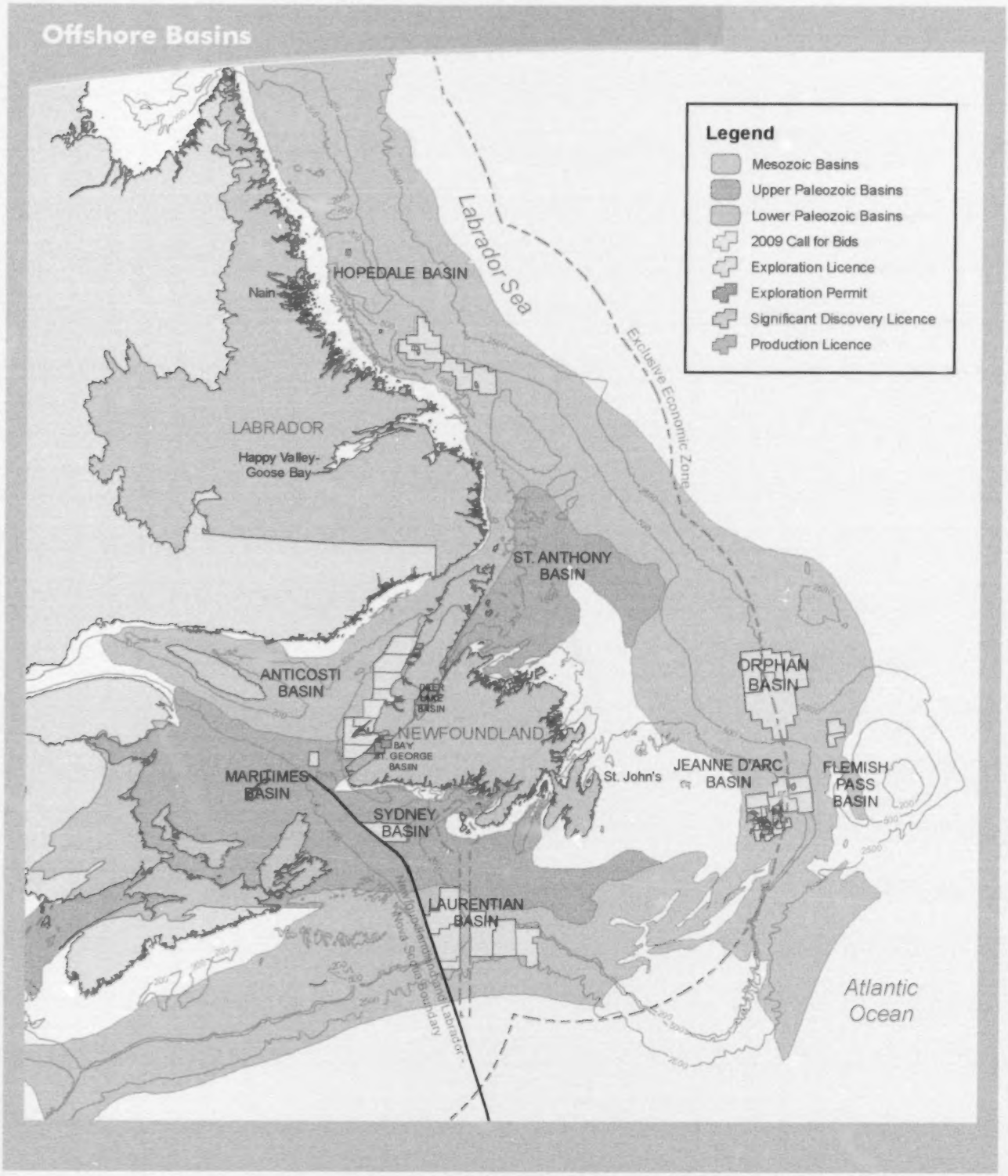
- ConocoPhillips has an exploration well scheduled in the Laurentian Basin off the province's South Coast. The company has contracted the *Stena Carron* drillship to drill a deep-water well in the area this year.
- Husky Energy, Chevron Canada resources and Investcan Energy have all submitted project descriptions to the C-NLOPB for proposed 2-D and 3-D seismic programs on the Labrador Shelf.

Onshore

- Vulcan Minerals Inc. completed drilling the Vulcan-Investcan Robinson's #1 well in Western Newfoundland in early October 2009. The well was drilled to a depth of 3,560 metres which is significantly deeper than previous wells in the area. The company announced that gas shows were encountered.
- Vulcan Minerals Inc. also recently completed two shallow exploration test holes on permit lands in the Flat Bay area with promising results. Further core hole tests are anticipated.
- Nalcor Energy - Oil and Gas will operate three exploration permits in the Parsons Pond area on the Great Northern Peninsula. Nalcor Energy has acquired an average of 67% gross working interest in these onshore permits and will work with its joint venture partners to finalize a drilling program to commence in the fourth quarter of 2009 at a cost of $20 million.

Call for Bids

- On May 28, 2009, the C-NLOPB announced three separate Calls for Bids consisting of four parcels comprising a total 513,769 hectares. Bidding closed on November 19, 2009. Successful bids were received on all four parcels totalling $47 million.
    - NL09-01 consisting of one 9,558 hectare parcel in the Jeanne D'Arc Basin was won by Husky Energy with a bid of $36.8 million.
    - NL09-02 consisting of two parcels (290,070 and 73,931 hectares) in the Laurentian Basin were won by a partnership of ConocoPhillips Canada Resources Corp. and BHP Billiton Petroleum (Laurentian) Corporation with bids of $8 million for Parcel 1 and $1 million for Parcel 2.
    - NL09-03 consisting of one 140,210 hectare parcel in the Western Newfoundland, Labrador Offshore Region was won by Ptarmigan Energy Incorporated with a bid of $1.2 million.
    - Bidders commit to make expenditures exploring the parcels with a requirement to drill a well within five years.


Offshore Basins
Legend
Mesozoic Basins
Upper Paleozoic Basins
Lower Paleozoic Basins
2009 Call for Bids
Exploration Licence
Exploration Permit
Significant Discovery Licence
Production Licence
Labrador Sea
Exclusive Economic Zone
HOPEDALE BASIN
Nain
LABRADOR
Happy Valley-Goose Bay
ST. ANTHONY BASIN
ANTICOSTI BASIN
DEER LAKE BASIN
NEWFOUNDLAND
BAY ST. GEORGE BASIN
MARITIMES BASIN
SYDNEY BASIN
St. John's
JEANNE D'ARC BASIN
ORPHAN BASIN
FLEMISH PASS BASIN
LAURENTIAN BASIN
Newfoundland and Labrador - Nova Scotia Boundary
Atlantic Ocean

Mining

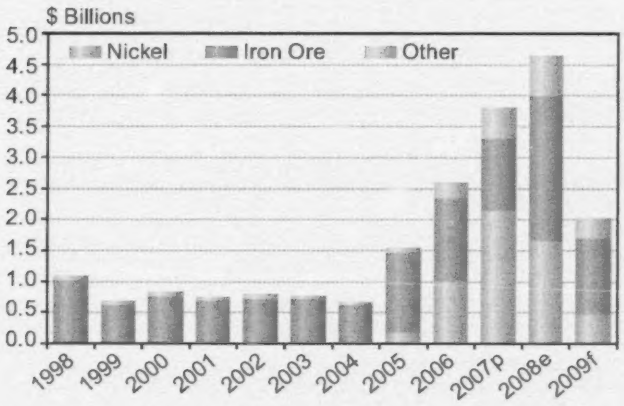
New equipment at the IOC mine

Courtesy: IOC

The mining industry faced considerable challenges in 2009. The global economic downturn exerted significant downward pressure on demand and, consequently, prices for mineral products. As a result, many provincial mineral producers scaled back operations and reduced their workforce. These pressures have eased in recent months and there have been signs of market improvement.

The value of mineral shipments is expected to be about $2.0 billion in 2009, a decrease of 56% from 2008's record high. The decrease is mainly due to lower production and prices of both iron ore and nickel. Exploration expenditures are expected to decline by about 61%—part of the fallout from the financial market turmoil which tightened access to capital. Total direct mining employment is expected to decrease by around 9% to about 3,500 person years.

Value of Mineral Shipments



p: preliminary; e: estimate; f: forecast
Source: Department of Natural Resources

Market Conditions

Over the past several years, demand for minerals had been strong, mainly due to increasing demand from developing countries such as China and India. However, the downturn in the global economy that began in the second half of 2008 and continued into 2009 dampened demand and lowered mineral prices.

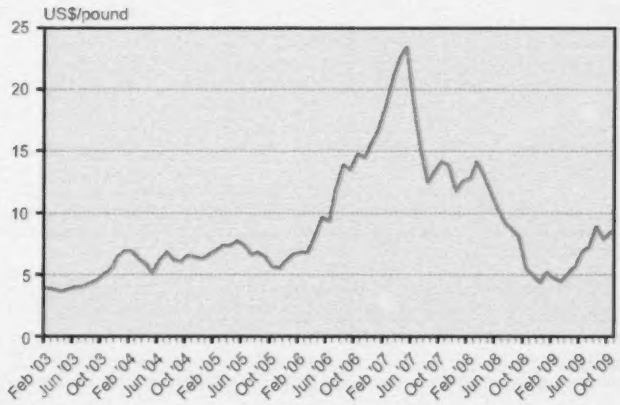
Iron ore prices were set in September. The Iron Ore Company of Canada's (IOC) 2009 prices fell substantially compared to 2008—down 29.8% to US$64.83/tonne for concentrates and down 48.2% to US$76.07/tonne for pellets.

Nickel prices fell significantly in 2008 from record levels in 2007, and this decline continued into the first quarter of 2009. Average nickel prices in the first quarter were approximately US$4.75/pound. However, since March, nickel prices have increased steadily and averaged about US$8.02/pound in the third quarter of 2009.

Copper prices tracked nickel prices for the most part during the recession. However, copper price declines were more severe in the last two months of 2008. Since then, prices have gradually increased from an average of US$1.55/pound in the first quarter of 2009 to an average of US$2.66/pound in the third quarter.

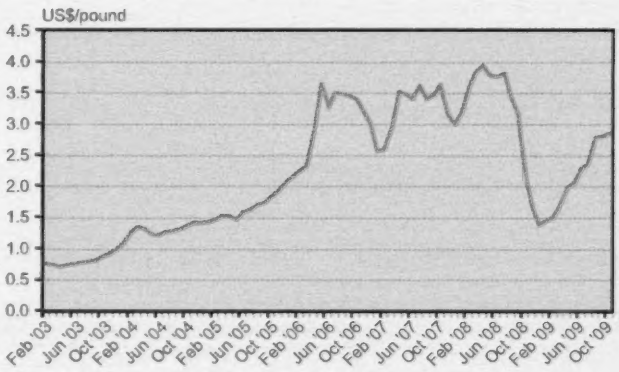
As the world economy begins to recover from the recession, demand for minerals is expected to strengthen and mineral prices are expected to rise over the remainder of 2009 and into 2010.

Nickel Price



Source: London Metal Exchange

Copper Price



Source: London Metal Exchange

Iron Ore

Iron ore producers operated under challenging conditions in 2009. This led to production cutbacks, shutdowns, layoffs and delays in expansion plans.

From January to August 2009, the volume of iron ore shipments decreased 24.3% compared to the same period in 2008. This decrease was due to production cutbacks at both IOC and Wabush Mines. Total iron ore shipments for 2009 are expected to be more than 16.5 million tonnes, a decrease of 14% relative to 2008. The value of shipments is expected to decline 48% as a result of reduced production and lower iron ore prices.

In an effort to deal with slumping demand for steel, IOC shut down production for a five-week period from July 7 to August 10, 2009. The company planned the shutdown around employee vacation time so that layoffs would be minimized. When production resumed, 30 new employees were hired. IOC's $800 million expansion plan announced in 2008 remains indefinitely postponed.

Wabush Mines also cut back production to deal with decreased demand. In February 2009, the company laid-off 160 employees, of which 130 were unionized. On August 31, after finding further opportunities in the Chinese market, the company announced that 100 of the unionized employees were recalled.

Wabush Mines continues to evaluate a potential manganese separation project. The company received $2.2 million from the Atlantic Canada Opportunities Agency towards a $4 million project to develop a prototype which will be used to determine whether the technology can be transferred to treat all production. The full project will cost $43 million and will allow the company to mine and process higher manganese ores which will improve product quality and extend the life of the mine.

Voisey's Bay

Vale Inco Newfoundland and Labrador (VINL) expects to ship over $625 million worth of metal concentrates in 2009, a decline of about 70% compared to 2008. This decrease is the result of lower production and lower prices for nickel and copper.

In response to poor economic conditions and lower prices, VINL shut down production at the Voisey's Bay operation, including the Ovoid mine and the processing mill, for the month of July. On August 1, 2009, 120 unionized employees at Voisey's Bay went on strike after rejecting the company's offer for a new three-year collective agreement. At the time of writing, the strike was still ongoing.

On January 29, 2009, the province and Vale Inco announced they had reached an improved Development Agreement for the construction of the hydromet nickel processing plant in Long Harbour. The company was granted a 14-month extension for the construction period resulting in a completion date of February 2013. The company also made other commitments including: a target of 77% of construction employment will occur in Newfoundland and Labrador; the company will not export more than an average of 55,000 tonnes of nickel concentrate per year for the next four years; and, the second-stage of the feasibility process for underground mining at Voisey's Bay will be completed by mid-2011.

The construction phase of the project began in April 2009. The company first had to perform demolition work to clear the port site of material remaining from a former phosphorus plant. Site clearing and infrastructure development, including road access, is currently ongoing with approximately 400 employees. The company estimates the total value of the construction, over the 2009 to 2013 period, to be US$2.8 billion.

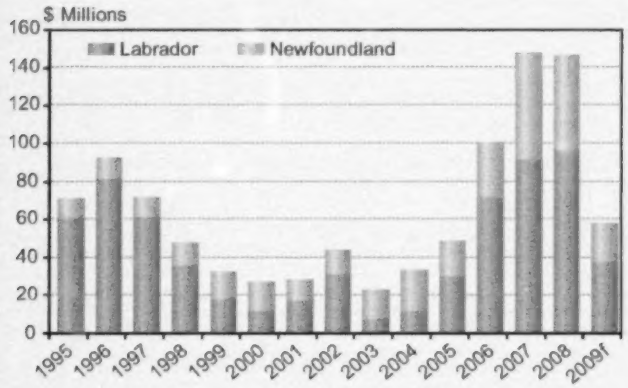
Other Mines

Anaconda Mining Inc. continues to work towards commercial production at the Pine Cove gold mine but work is being delayed due to problems in the milling process. On June 1, 2009 Anaconda announced it had entered an agreement with Crew Gold to process ore from Pine Cove at Crew's Nugget Pond mill for a period of 12 months. This will allow Anaconda time to work on rectifying problems with the Pine Cove mill. On September 9, 2009 Rambler Metals and Mining PLC purchased the Nugget Pond facility from Crew Gold but has stated that the milling contract with Anaconda will continue uninterrupted.

Teck Duck Pond Operations, located in Central Newfoundland, was challenged by lower prices for both copper and zinc. Prices for copper and zinc declined dramatically at the end of 2008 and early in 2009, however, since then, prices for both minerals have steadily increased. The Duck Pond mine is in its second year of operation and on June 3, 2009 Teck announced that it would soon reach a milestone—Teck was about to enter the heart of the ore body. Of notable interest is the fact that copper from the Duck Pond Mine is being used in the production of bronze medals for the 2010 Olympic Games in Vancouver.

In 2008, Beaver Brook Antimony Mine Inc. reactivated the antimony mine located near Glenwood after a 10-year closure. The mill is now producing around 250 tonnes per day and the company expects to achieve the rated capacity of 450 tonnes per day in 2010. In October 2009, Beaver Brook Antimony Inc. was sold to Hunan Nonferrous Metals Corporation of China (HNC), the largest antimony company in the world. This purchase should ensure the demand for and stability of the mine's concentrate sales.

Mineral Exploration Expenditures



f: forecast
Source: Department of Natural Resources

Exploration

Over the past several years, the commodity market had been booming and this resulted in significant increases in mineral exploration and mine redevelopment. Exploration expenditures in Newfoundland and Labrador rose to a record level of $148 million in 2007 and remained historically high in 2008 at $146 million. However, with the recent economic downturn, which resulted in lower mineral prices and tighter access to capital, mineral exploration expenditures are expected to decline to $58 million in 2009. A return to economic growth and improved conditions in equity markets could bolster exploration expenditures next year.

New Developments

Canada Fluorspar Inc. is working towards reactivating the fluorspar mines located on the Burin Peninsula. The company plans to develop and mine two partially mined underground veins; complete upgrades to the existing mill; and construct a tailings management facility and a new marine terminal. The project is currently in the environmental assessment stage. Annual production is expected to be a minimum of 120,000 tonnes of fluorspar concentrates. The project is expected to generate approximately 300 jobs during peak construction and 150-190 direct jobs during operations. The company expects construction to begin in 2010 with operations to commence in late 2011 or early 2012.

Rambler Metals and Mining PLC continues to explore and develop the potential of mineral claims located on the Baie Verte Peninsula including the former Ming Mine copper operation. The company has stated that underground engineering is nearly complete and the development will likely be registered with the Department of Environment and Conservation (DOE&C) before the end of 2009. The company plans to bring the project to production in 2010 and process 850 tonnes of copper/gold per day and employ over 100 people at full production. The recent purchase by Rambler of the Nugget Pond mill from Crew Gold is expected to improve project economics.

New Millennium Capital Corp. (NMCC) and Labrador Iron Mines Holding Limited (LIM) each hold high grade iron ore properties in Northwestern Labrador near the Labrador/Quebec border. LIM's Environmental Impact Study (EIS) was accepted by DOE&C on November 4, 2009. The project has a target start date of mid-2010 and would employ about 110 people during operation. NMCC has stated that a feasibility study on its project will be completed in 2009. An EIS is required for the project but it has not yet been submitted. Production is expected to begin in the second quarter of 2011 and 188 jobs are expected to be created once the project is operational.

Forestry

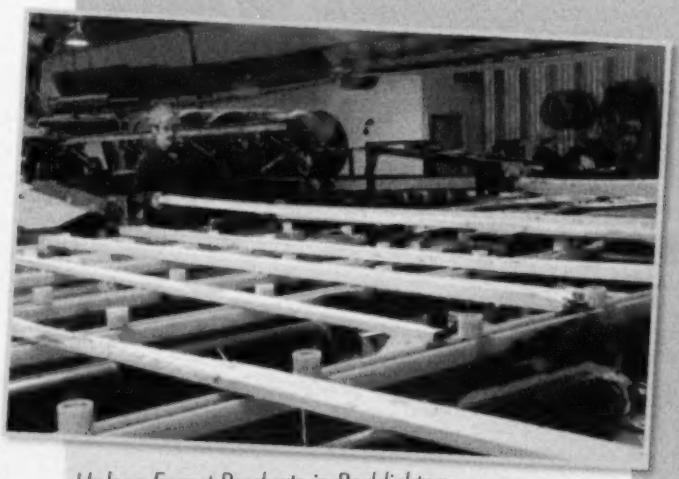
Newsprint

North American newsprint consumption has declined steadily over the past decade due to a shift in the mode of news delivery and more recently, a general decline in advertising due to the economic downturn. More readers are turning to electronic media as their medium of choice and as a result the demand for newspapers, along with publishers' advertising revenues, has fallen dramatically. In response, newspaper publishers have been reducing costs by producing smaller tabloid form papers, reducing the frequency of their publications, and expanding into, and charging for, electronic access—further exacerbating the decrease in newsprint demand.

U.S. newsprint consumption declined from 11.9 million tonnes in 2000 to 6.8 million tonnes in 2008, a drop of 43%. This downward trend continued in 2009. During the first eight months of this year, U.S. newsprint consumption decreased by 25.6%.

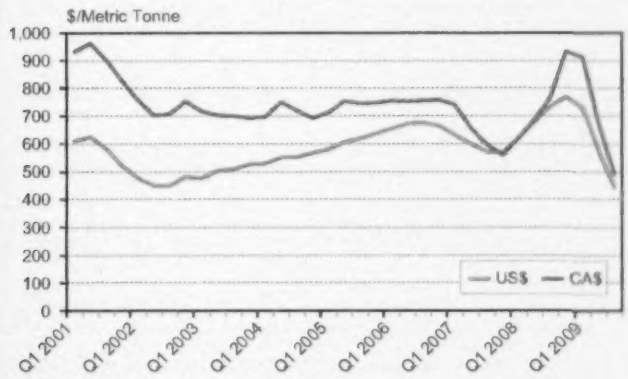
Producers have cut production over the past several years by closing many of their higher cost mills and idling many of their older, less efficient, paper machines in an effort to stabilize the newsprint market and increase prices. In addition, many North American mills took extensive downtime in 2009, resulting in a January-to-September production decline of 30.6% over the same period in 2008.

After rebounding throughout most of 2008, newsprint prices began to trend downward in December—falling from a peak of US$775/tonne in November 2008 to just US$435/tonne in August 2009. The adverse impacts of the price declines were exacerbated by appreciation of the Canadian dollar, putting further



Holson Forest Products in Roddickton
Courtesy: Department of Natural Resources

Newsprint Prices



Source: TD Economics; Department of Finance

constraints on the competitiveness of Canadian newsprint manufacturers. On a positive note, newsprint prices increased moderately during each of the past three months and now stand at US$500/tonne.

The chart illustrates the relationship between U.S. and Canadian dollar newsprint prices over the past several years. Over the 2002 to 2006 period, gains in US dollar prices were mostly offset by appreciation of the Canadian dollar; hence these price increases provided little net benefit to Canadian producers. Over the 2007 to 2009 period, newsprint prices and exchange rates have been extremely volatile making business planning very difficult.

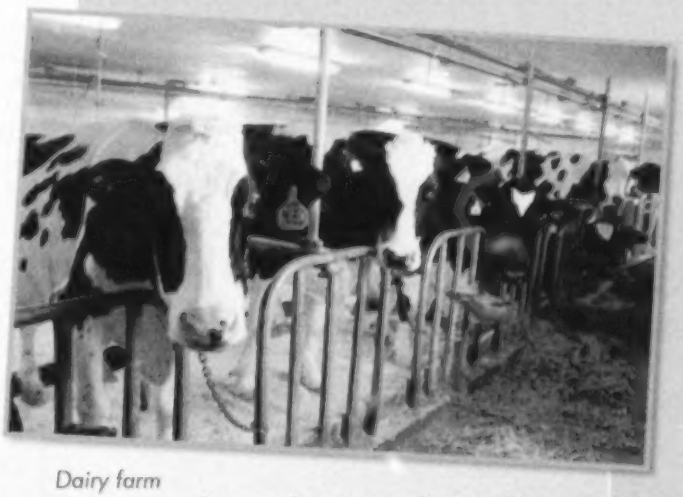
The volume of provincial newsprint shipments decreased by 47% during the first three quarters of 2009 due to the closure of the AbitibiBowater mill in Grand Falls-Windsor in February and the indefinite idling of Paper Machine No. 4 at the Corner Brook mill in March. In addition, a two-week shutdown of the Corner Brook mill occurred in October. On an annual basis, newsprint shipments are expected to decline to 284,000 tonnes in 2009, a 46% decline from 2008.

Lumber

The volume of provincial lumber production in 2009 is expected to remain on par with the relatively low level of 70 million board feet produced last year. Many local producers are finding it unprofitable to operate sawmills due to low lumber prices—the result of downturns in the Canadian and U.S. housing markets. Lumber prices have declined by approximately 50% since 2004 due to the combined effect of lower US dollar prices and appreciation of the Canadian dollar. However, there has been some upward movement in prices over the summer. Lumber is currently trading for approximately US$238/thousand board feet up from an average of US$198 in the first quarter of 2009.

The short-term prospects for the province's wood producers are challenging. The Government of Newfoundland and Labrador, in conjunction with the sawmill and value added sectors, is working to develop a long-term marketing strategy which will diversify the solid wood products industry. The focus will be developing products such as MSR (Machine Stress Rated) lumber, fingerjointed studs, and appearance products which take advantage of the province's high strength characteristics of slow growing species. Government is also interested in pursuing the

idea of utilizing small diameter wood and available sawmill residues by investing in the development of wood pelletizing facilities such as that currently being constructed on the Northern Peninsula (Holson Forest Products in Roddickton).



Dairy farm

Courtesy: Department of Natural Resources

Agrifoods

Farm Cash Receipts

Total farm receipts declined 4.5% in the first three quarters of 2009, compared to the same period in 2008, to $78.9 million. Fur production receipts were down 58.5% to $3.2 million and egg production receipts were down 0.7% to $9.9 million. Floriculture and nursery product receipts were up 1.6% to $6.3 million. Dairy product receipts were up 3.6% to $35.2 million. Although farm receipts for chicken production are no longer published, data from the Chicken Farmers of Canada indicate that the volume of chicken produced in the province decreased by 3.8% in the first three quarters of 2009 to 10.0 million kilograms.

Dairy Industry Feed Initiative

The province recently announced a $12 million land development initiative to assist dairy farmers in developing larger acreages of land for increased forage production. The new three-year initiative will enable the industry to produce more forage within the province, lowering the cost of importing feed and improving dairy producers' bottom lines. This initiative will also ensure long-term job security for existing farm employees; create approximately 360 seasonal jobs as the land is developed; secure the continued production and supply of industrial milk to existing processing facilities; and provide potential for expansion and new processing opportunities. The province is investing $6 million under the Agriculture and Agrifoods Development Fund which will be matched by individual dairy farmers.

Fishery

Fishing vessels, Old Perlican
Courtesy: Department of Fisheries and Aquaculture

The Newfoundland and Labrador fishery faced a difficult year in 2009. The global recession severely weakened demand exerting downward pressure on prices for many species and reducing fishing activity. Disagreement over raw material prices between harvesters and processors resulted in a month long dispute in the shrimp fishery which further decreased activity in that sector. While exporters started the year with a favourable Canada/U.S. exchange rate, the appreciation of the Canadian dollar against the U.S. currency slowly eroded that competitive advantage.

Preliminary estimates indicate that landings will be about 303,000 tonnes in 2009, down 8% from last year. A decline in shellfish landings, in particular shrimp, is the main factor behind the drop in catches, although lower groundfish catches also play a role. In addition to lower volumes, prices for most species declined resulting in a projected decrease of 20% to 25% in the value of landings to between $400 and $410 million.

Employment in the industry declined in 2009. Employment during the first 10 months of the year averaged 11,000[1], down from 12,800 during the same period last year. Declines occurred on both the harvesting and processing sides of the industry. Harvesting employment averaged 5,900, down from 6,700 in 2008, while processing employment fell from 6,100 to 5,100.

[1] This figure is from the Statistics Canada Labour Force Survey and is the average of the first 10 months of 2009. The actual number of people that worked in the fishery at some point during the year was between 23,000 and 24,000.

Harvesting

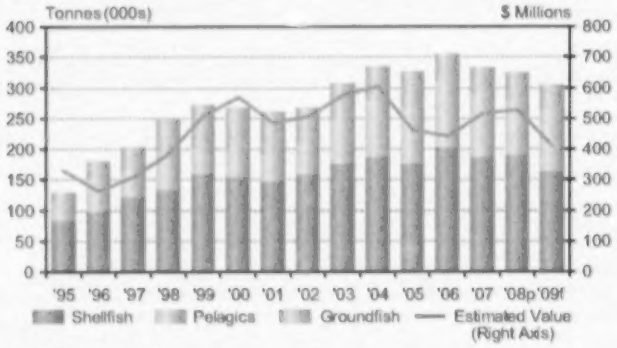
Shellfish landings are expected to be down by about 16% in 2009 reflecting lower shrimp and lobster catches. Lower shrimp landings are due, in large part, to a price dispute that occurred during the summer, poor weather that kept harvesters from fishing in the Fall, higher operating costs and declining catch rates in certain areas. As a result, shrimp landings from the inshore sector are expected to be down 40%. As part of the settlement of the dispute that occurred the summer, Government, harvesters and processors signed a fisheries restructuring agreement which is discussed below.

Long-Term Industry Development

A new agreement reached in mid-July between Government, harvesters and processors, provides a process for addressing long-term structural issues in the province's seafood industry. Several working groups have been established to address key areas including the state of the industry's finances; development of a long-term marketing strategy; and development of models to restructure both the harvesting and processing sectors. A worker adjustment sub-committee (of the processing restructuring working group) will also address worker adjustment issues arising from industry restructuring. The working groups will submit their respective reports to a Steering Committee which, in turn, will report its findings before the start of the next fishing season.

Overall, 76,000 tonnes of shrimp are expected to be landed in 2009, down about 33% from the previous year. The overall value of shrimp landed

Volume and Value of Fish Landings



p: preliminary; f: forecast
Source: Department of Fisheries and Aquaculture

is expected to drop even more than the volume—value is forecast to decline by 44% from about $186 million in 2008 to about $105 million in 2009.

The volume of crab landed was relatively stable in 2009 at around 53,500 tonnes. Like other species, crab prices were down, with the average price paid to harvesters reported at around $1.40/pound compared with $1.54/pound in 2008.

Groundfish landings are expected to be down by about 11% in 2009 due mainly to lower cod and yellowtail flounder catches. The value is expected to be down 28%. About 15,000 tonnes of cod is expected to be landed, down from 17,500 tonnes last year. Market prices for cod are lower this year because of increased competition from suppliers such as Iceland, which has a weak currency and higher quotas, and China, which has increased the supply of cultured whitefish. The competitive position of cod was also eroded by the less than favourable movement in the Canada/U.S. exchange rate during the year. Lower prices also reduced fishing effort for yellowtail flounder this year resulting in reduced catches—to October landings of yellowtail flounder were down by over 50% compared to the same period in 2008.

Shrimp processing, St. Anthony Seafoods Limited Partnership
Courtesy: Department of Fisheries and Aquaculture

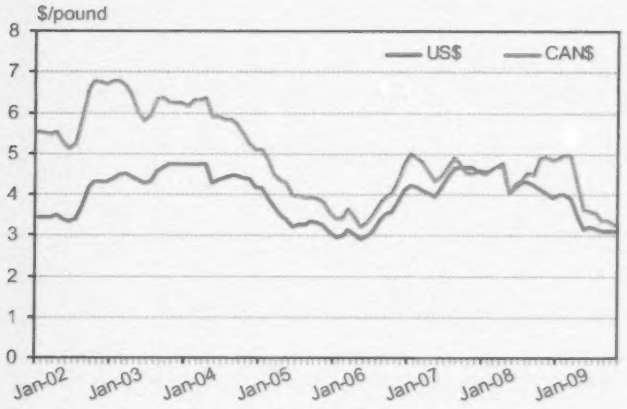
Pelagic landings are expected to be up in 2009 due mainly to higher mackerel catches. Approximately 99,000 tonnes of pelagic fish are expected to be landed, up almost 11% over 2008 and value is expected to reach $24 million, up almost 9%. Mackeral catches are expected to be up by 46% reflecting increased landings in the Gulf. This increase is expected to more than offset a drop in capelin landings.

The seal fishery this past spring turned in a poor performance with less effort being exerted due to low market prices. Demand for fur is down due, in large part, to the economic downturn and lower demand for luxury products. Overall, 54,000 seals were landed in the province in 2009, down from over 200,000 in 2008. Prices to sealers were about $14/pelt, down from over $30/pelt last year.

Processing and Marketing

There were about 116 seafood processing facilities operating in the province this year. Overall, 105 of these were primary processing (including 5 aquaculture based), and the remainder were secondary and retail (i.e., retail businesses with a licence to process fish for the local market only). Production during the January to October period totalled 140,200 tonnes, down by 15% from the same period in 2008. According to the Statistics Canada manufacturing survey, the value of seafood manufacturing shipments during the first nine months declined 24% compared with the same period last year.

Prices for Frozen Crab Sections Sold in the U.S. (5-8 ounce)



Note: Price data were not available from Urner Barry Publications for several months. These data were estimated by the Department of Finance.

Source: Urner Barry Publications Inc.; Bank of Canada; Department of Fisheries and Aquaculture; Department of Finance

The United States and China remain the largest international markets for the province's fish products, followed by the U.K., Japan, Denmark and Russia. Overall, seafood markets were negatively impacted by declines in consumer demand and a weak food service sector in 2009. The average price for 5-8 ounce crab sections in the U.S. from January to October was US$3.42/pound, down from US$4.37/pound during the same period last year (see chart). Shrimp prices in the U.S. market are also notably lower than 2008. The average U.S. prices for imported 150-250 and 250-350 cooked and peeled coldwater shrimp during the first 10 months were down 15% and 13% respectively over 2008. The lower Canadian dollar vis à vis the U.S. currency helped cushion some of the low prices earlier in the year. However, the appreciation of the dollar since the spring has eroded much of this advantage for exporters.

The European Union (EU) continues to be a major market for cooked and peeled coldwater shrimp. However, some of the product is subject to substantial punitive tariffs which put Canadian exporters at a competitive disadvantage. Some improvement in this situation has occurred in recent years with the amount of Canadian shrimp that can be sold to the EU under the lower 6% tariff increasing from 7,000 to 20,000 tonnes. Further improvements in this situation are anticipated to come into effect on January 1, 2010 when the EU is expected to remove the 6% tariff on the 20,000 tonnes. It is further anticipated that yellowtail flounder will be added to the EU list of Canadian flounders covered by the Autonomous Tariff Rate Quota (ATRQ). Under the ATRQ up to 10,000 tonnes of Canadian flounder can be imported with no tariff. Yellowtail flounder is not included under the ATRQ and has been subject to tariffs as high as 15%. These developments will help alleviate other challenges Canadian exporters have experienced such as the appreciation of the Canadian dollar against the British Pound—the dollar has appreciated 35% against the pound since January 2007.

Aquaculture

The province's aquaculture sector, which commercially produces Atlantic salmon, steelhead trout and blue mussels, is expected to turn in a mixed performance this year. Production volume, after reaching an all-time high in 2008, is expected to be around 10,760 tonnes, down 7% from levels in 2008. This drop largely reflects lower mussel production—demand for fresh mussels was down in 2009 in both the U.S. and Canada due to the recession. The value of aquaculture products fared much better than volume because of higher salmon production and prices. The export value of aquaculture products is expected to increase by between 15% and 20% to around $70 million this year.

Manufacturing

Dynamic Air Shelters

Courtesy: Dynamic Air Shelters

North American Manufacturing Trends

North American manufacturers operate in a competitive and challenging environment. The implementation of various trade agreements dramatically increased competition, especially from low-cost producers such as China and India. There have also been shifts in demand for manufactured products. Newsprint manufacturers have been heavily impacted by a decline in North American newsprint consumption. Consequently, many newsprint producers have cut production by closing some of their higher cost mills and idling less efficient machines.

The recent recession and financial market turmoil put added pressure on manufacturers. Lower consumer confidence and weak demand resulted in decreased purchases of manufactured products. Tighter credit markets also made it more difficult for manufacturers to support current operations and expansion plans. Canadian manufacturers have also been challenged by the appreciation of the Canadian dollar in 2009 rising from a low of about 77 cents US in March to about 94 cents US recently.

Automobile manufacturing has been particularly hard hit. Up until recently, this sector accounted for roughly 18% of manufacturing shipments in Canada. This sector has been subject to increased competition from less expensive imported vehicles for a number of years. This situation was exacerbated by the recession and financial crisis. Automobile sales in the U.S. declined by over 27% in the first nine months of this year and by almost 15% in Canada, even with government initiatives to encourage the "trading in" of older vehicles for new fuel efficient models.

Manufacturing PMIs

Manufacturing PMI (Purchasing Managers Index) surveys are conducted by JP Morgan, the Institute for Supply Management and the Purchasing Management Association of Canada. These surveys measure month-to-month changes in manufacturing activity across a range of indicators including production, new orders, deliveries, employment and inventories. The surveys record responses to questions regarding whether activities have increased, decreased or remained the same over the previous month. The responses are then weighted to create the PMI.

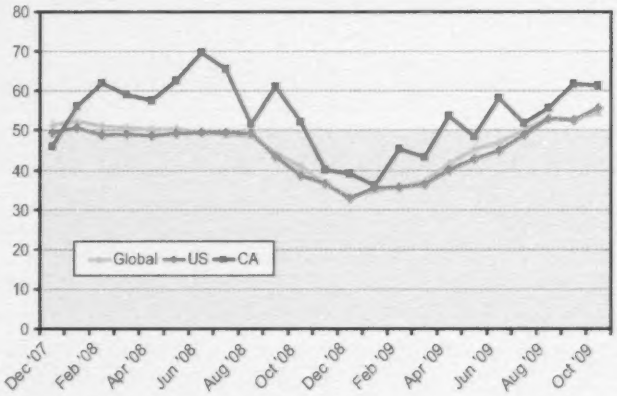
PMIs are considered by many economists to be a reliable indicator of the manufacturing sector and the economy as a whole in the near-term.

An index below 50% means that more respondents indicated that activity has decreased over the past month, representing a contraction in the manufacturing industry. An index above 50% represents an expansion and an index value of 50% represents no change.

The farther away the index is from 50%, the greater the rate of change. For instance a PMI of 65% represents a faster rate of increase than a PMI of 60% and a PMI of 40% indicates a faster rate of decrease than a PMI of 45%.

As a result of difficult operating conditions, the Global, U.S. and Canadian PMIs (see text box) were less than 50% for the first half of 2009—contracting at some of the fastest rates on record. However, recent months have shown improvement and beginning in August both the Global and U.S. PMIs exceeded 50%. This increase is partially attributable to higher output in the auto sector due to government stimulus programs. The Canadian PMI exhibited similar trends, however, it has been above the 50% mark since June.

Manufacturing PMIs



Source: JP Morgan; Institute of Supply Management; Purchasing Management Association of Canada

Provincial Manufacturing

The manufacturing industry in the province accounts for about 5% of GDP and 6% of total employment. There are many manufacturers in the province producing a wide variety of products, however, the industry is concentrated among three major groups—food processing (mainly fish), newsprint and refined petroleum.

The total value of manufacturing shipments in the province declined significantly this year as a result of the challenges faced by the manufacturing industry. The value of shipments for the first nine months of 2009 was approximately $3.3 billion, representing a decrease of just over 38% compared to the same period in 2008.

The fish processing industry has faced many challenges in 2009. Market prices for fish products were low due to deteriorating market conditions throughout much of the year. This led to a price dispute between shrimp harvesters and processors and caused a temporary shutdown of the shrimp fishery for a portion of the fishing season. The value of manufactured fish products shipped during the first nine months of 2009 declined 24% compared to the same period last year.

Newsprint shipments also declined in 2009. For the first three quarters, the volume of newsprint shipments decreased by almost 50%. The newsprint industry in the province has been hit hard by the closure of the Grand Falls-Windsor mill in the first quarter. In addition, Corner Brook Pulp and Paper shut down the No. 4 machine at the mill for an indefinite period and laid-off 130 workers in June. The company also shut down operations for two weeks in October due to unfavourable market conditions, a high Canadian dollar and low newsprint prices. On an annual basis, newsprint shipments are expected to decline to 284,000 tonnes in 2009, down 46% from 2008.

The North Atlantic Refinery in Come-by-Chance, owned by Harvest Energy, is the province's sole oil refinery. The production value of the refinery's product has decreased significantly as a result of the decline in crude oil prices. According to Industry Canada export data, the value of refined petroleum product exports decreased by over 50% in the first nine months of 2009 in comparison to the same period last year. Despite this, North Atlantic continued to invest in its operations this year. A 42-day turnaround for improvements and enhancements to the refinery was completed in the second quarter of 2009 at a total cost of $47.5 million. On October 22, 2009, Harvest Energy announced that Korean National Oil Corp. was buying the company for $4 billion and with it, acquiring the North Atlantic refinery. The deal is expected to close by the end of 2009.

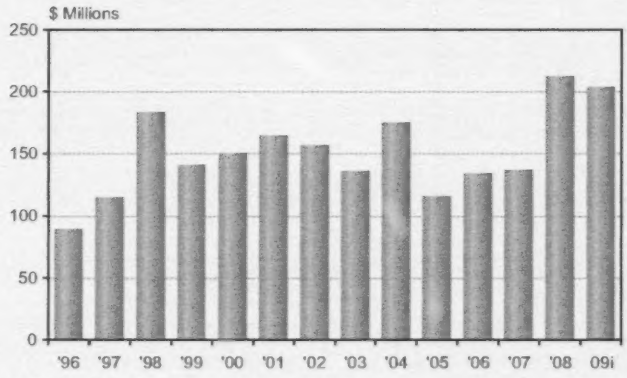
Employment in the manufacturing industry also declined. Employment averaged 12,300 in the first 10 months of 2009, representing a decrease of 2,500 or 16.8% over the same period in 2008. Fish processing employment declined by about 1,000, while manufacturing employment outside of fish processing declined by about 1,500.

Investment in manufacturing activities, however, remains relatively high. Manufacturing investment is expected to exceed $204 million in 2009. Although investment is expected to be slightly lower than the previous year, it should be noted that 2008 was a strong year for investment (see chart). Strong investment expectations are due in part to the increase in capital expenditures at the North Atlantic Refinery—up 83% for the first half of 2009 compared to the same period in 2008—and the start of construction of the nickel processing plant in Long Harbour.

While manufacturing activity is concentrated in the larger resource related industries, other

manufacturers (those that provide finished products to smaller, more specialized markets) have been advancing their operations recently. Some recent developments for selected operations are outlined in the table below.

Manufacturing Investment



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Source: Statistics Canada

Manufacturers

Company Name	Location	Recent Developments
Vale Inco	Long Harbour	Began construction of US$2.8 billion hydromet nickel processing plant.
Dynamic Air Shelters	Grand Bank	$1.2 million expansion of existing facilities.
Corner Brook Pulp and Paper	Corner Brook	Advanced its fibre measurement technologies.
Builders Edge Manufacturing	Paradise	Completed construction of a facility to build modular homes.
Town of Marystown	Marystown	Third phase in the development of a marine industrial park.
Marport C-Tech Ltd.	St. John's	Awarded a $2.7 million contract to supply sonar system to an international naval customer.
Atlantic Hydraulics & Machine Ltd.	Corner Brook	Investing $500,000 to construct a new waterfront fabrication store.
Holson Forest Products	Roddickton	$10 million investment to modernize sawmill and establish a wood inventory yard and pelletizing facility.
Northstar Networks	St. John's	Secured additional work from a $2.6 million contract to build consoles and panels for the Canadian Navy.

Construction and Real Estate

New YMCA, corner of Higgins Line and Ridge Road
Courtesy: Department of Finance

Construction

The construction industry is expected to post a strong performance in 2009. The level of construction investment is expected to increase significantly, in both nominal and real terms, and is expected to outpace national growth. Total construction investment is expected to increase by 33.5% (33.7% in real terms) to reach $4.2 billion in 2009, while nationally construction investment is expected to decrease by 10.4%.

Non-Residential Construction

Non-residential construction generally accounts for the largest portion of construction expenditure. The latest Statistics Canada Public and Private Investment (PPI) survey indicates that non-residential investment could increase by 60.4% (58.1% in real terms) to $2.7 billion in 2009. The majority of the increase in non-residential investment is linked to construction related to the White Rose oilfield expansion, the nickel processing facility in Long Harbour and the government infrastructure program.

Residential Construction

Investment in residential construction is also expected to increase in 2009. For 2009, residential construction investment is expected to total $1.5 billion, an increase of 2.3% in both real and nominal terms compared to 2008. Data collected during the first half of 2009 strongly support this expectation. During the first six months, residential construction spending was up 20.9%, with higher expenditures for both new dwellings (+28.1%) and renovations (+18.7%). Expenditures for new dwellings posted strong growth despite a slight decrease in housing starts during the first half of 2009. The pace of new dwelling investment

will likely slow in the second half of 2009 as housing starts decline from last year's peak. Renovation spending has been bolstered by the Home Renovation Tax Credit and ecoENERGY Retrofit grants, and is expected to remain high for the remainder of 2009.

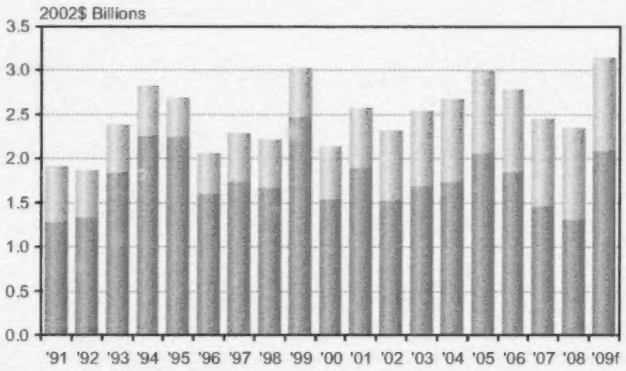
Construction Employment & Wages

Construction employment and wages recorded notable growth over the past decade (see chart). However, over the first 10 months of 2009, construction employment declined 5.5% to 15,700 over the same period in 2008. This is slightly less than the national construction industry rate of decline (-6.0%), but much stronger than the provincial average decline in total employment of 2.9%. It is believed that a portion of the employment decline recorded in this province is due to a drop in employment of workers who live here but commute out of the province to work. After recording an increase of 16.2% during 2008, average weekly earnings for the construction industry were down 2.1% during the first 10 months of 2009.

Building Permits

Contrary to Statistics Canada's PPI survey, the value of building permits issued decreased 5.9% during the first nine months of 2009 compared to the same period in 2008. However, building permits account for only 25% of total construction investment and disproportionately represent the residential sector. Therefore, the decline in building permits is likely a reflection of the decrease in housing starts after last year's peak.

Construction Investment



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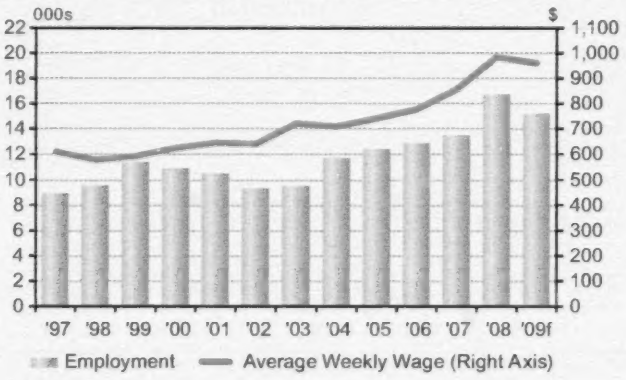
Source: Statistics Canada; Department of Finance

Construction Employment and Wages



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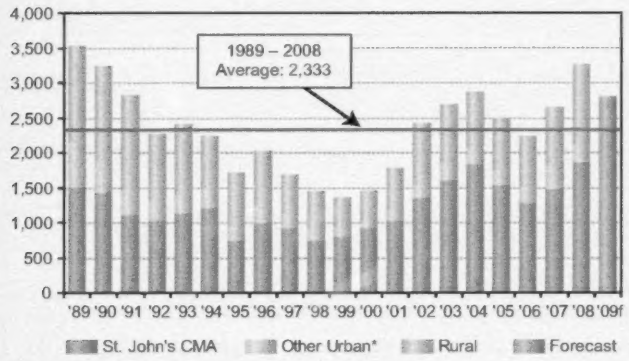
Source: Statistics Canada; Department of Finance

Housing Starts



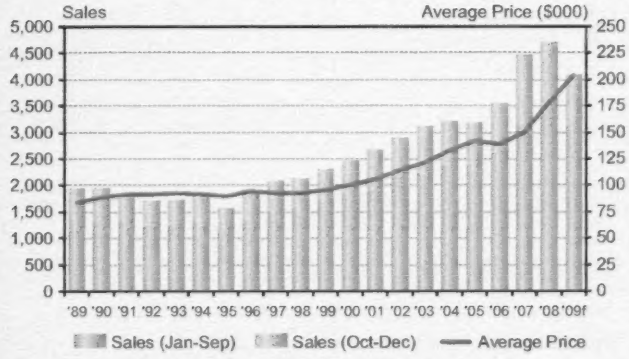
* Includes Census Agglomerations: Carbonear (1989-1991), Bay Roberts (2007-08), Corner Brook, Gander, Grand Falls-Windsor, Labrador City (1989-2007)
Source: Canada Mortgage and Housing Corporation; Department of Finance

Housing Starts

During the first three quarters of 2009, housing starts totalled 2,090 units, down 9.1% compared to the same period in 2008. By comparison, housing starts were down 16.9% in the Maritimes and 37.7% in Canada over the same period.

Both urban and rural areas recorded a decrease in housing starts in the first nine months of 2009. Urban housing starts (which account for approximately two thirds of housing starts in the province) were down 9.4% to 1,432 units and rural starts were down 8.4% to 658 units over the same period in 2008. Total housing starts are expected to reach 2,802 units in 2009, a decrease of 14.1% from 3,261 units in 2008. Despite this year's decline, housing starts and the level of sales activity in the residential sector remains high by historical standards. Since 1989, housing starts have averaged 2,333 units per year.

MLS® Sales and Average Price



Source: Canadian Real Estate Association; Department of Finance

Real Estate

Residential Sales Activity and Prices

Residential sales activity and prices increased to record levels in 2008. Although sales activity this year has decreased from record highs, further housing price increases indicate continued strength. The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service® (MLS®) during the first 10 months of 2009 was 3,596, a decrease of 11% from 4,041 during the same period in 2008, but still strong from a historical perspective. The number of MLS® sales is expected to reach 4,100 in 2009[2], a decrease of 12.7% from the record year in 2008 but in line with sales

[2] Approximately 80% of MLS® listings are located on the Avalon Peninsula and do not include exclusive or private sales.

activity in other Atlantic provinces. Nova Scotia (-14.7%), New Brunswick (-12.0%), and Prince Edward Island (-4.5%) are all expected to record negative growth in MLS® sales activity during 2009. Nationally, MLS® sales are expected to decrease by 3.1%.

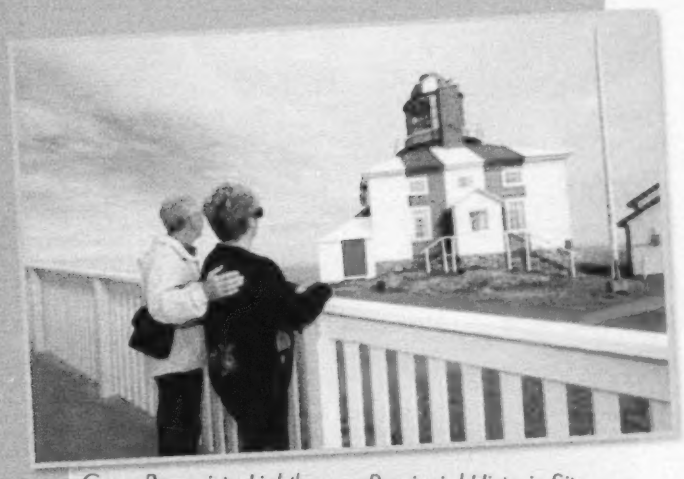
During the first 10 months of 2009, the average MLS® residential price in the province was $202,742, an increase of 18.1% compared to 2008. Since 2006, average sale prices have increased by 45.7%. Housing prices have continued to increase despite declines in many other parts of Canada. Nationally, MLS® average home prices fell 0.7% in 2008 and are expected to decline 0.7% again in 2009. According to Canada Mortgage and Housing Corporation (CMHC), "Newfoundland and Labrador represents the only consistent price growth market in Canada during the past 12 month period."

Strong housing demand is attributable to employment and income growth, household formation, low mortgage rates and a positive business environment, facilitated in part by continued optimism surrounding a number of future major projects. In addition to these factors, industry has indicated that demand for residential units is also being fuelled by expatriates living in other provinces and from residents who commute to other provinces who are purchasing property for personal and/or investment purposes.

Rental Market

Residential rental vacancy rates are at, or near, historical lows throughout Newfoundland and Labrador. Vacancy rates in urban areas have decreased from a high of 15.4% in 1997 to 1.1% in 2008. During 2008, vacancy rates were lowest in the St. John's CMA (0.8%) and Corner Brook CA (0.9%), followed by Grand Falls-Windsor CA (1.9%), Gander (2.6%), and Bay Roberts (4.0%). Although vacancy rates are low, rents remain the lowest in Atlantic Canada. In 2008, the average monthly rent for a two-bedroom apartment in Newfoundland Labrador was $596 compared to $635 in New Brunswick, $660 in Prince Edward Island and $795 in Nova Scotia. It is expected that improved labour markets, positive net-migration, higher housing prices and a slowdown of rental construction will keep vacancy rates low and place upward pressure on rents this year.

Tourism



Cape Bonavista Lighthouse, Provincial Historic Site
Courtesy: Newfoundland and Labrador Tourism/
Wayne Barrett

Global and National Tourism

Travel and tourism worldwide were negatively impacted by the global recession in 2009. Worldwide international tourist arrivals declined by 7% between January and August 2009, with almost all regions posting declines. However, in recent months, the rate of decline has eased, suggesting that the decline in international tourism may be bottoming out.

The Canadian tourism industry was also hit hard by the recession. Total trips by international visitors to Canada (same day and overnight) totalled over 20 million for January to September, down 9.3% over the same time in 2008. Overnight trips totalled 13 million, down 7.6% for the period. Trips were down from virtually all major countries, reflecting the decline in economic activity and H1N1 concerns. Furthermore, the Canadian dollar gained strength during the year, eroding the attractiveness of travel to Canada by U.S. tourists.

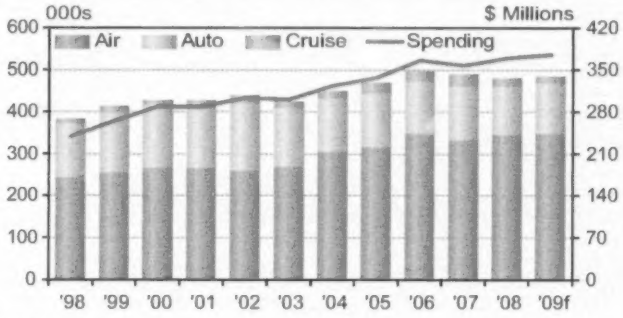
Provincial Tourism

The Newfoundland and Labrador tourism industry performed better than expected in 2009, despite these global and national trends. The number of non-resident visitors (air, automobile and cruise) to the province in 2009 is expected to be around 484,100, an increase of 0.8% over 2008. Associated spending is expected to reach $375 million, up 1.5%. The province's performance was solid in an Atlantic Canada context, with a year-over-year increase in non-resident visitation of approximately 2% for the period ending September. This compares to a 1% increase in Nova Scotia and a flat performance in New Brunswick and Prince Edward Island over the same time. Also, the average January to September accommodation occupancy rate in the province was positive, while the Maritimes registered declines.

Air travel is by far the largest segment for the province's non-resident tourism sector, accounting for 72% of visitors and 80% of spending in 2008. The number of non-resident air travelers is expected to total 348,900 this year, up by 0.8% over 2008. While detailed air access information was not available at time of publication, St. John's International Airport—which accounts for about two-thirds of all airport passenger movements in the province—reported that the number of daily flights was expected to increase from 62 in the fall of 2008 to 70 in the fall of 2009.

Non-Resident Visitors and Spending

By Mode of Transportation



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Source: Department of Tourism, Culture and Recreation

Non-resident automobile visitors increased in 2009. Despite some challenges with the ferry service to the island, particularly during the peak season, including vessel breakdown and schedule delays associated with the new ferry MV *Atlantic Vision*, it is estimated that the number of non-resident automobile visitors will increase 4.3% over 2008, reaching approximately 119,000. To date (January – October 2009), Quebec (+14.9%), Ontario (+8.3%) and the Maritimes (+4.5%) have contributed to this increase, more than offsetting declines in non-resident automobile visitors from other regions.

Anticipated increases in cruise ship visitation for 2009 did not materialize mainly due to weather related cancellations. The number of cruise ship port calls totalled 107, down 29.6% from the 152 recorded last year and the number of non-resident cruise visitors[3] decreased 18.3% to 16,200.

Occupancy rates point to a relatively good year for the accommodation industry. Occupancy rates reached 50.7% for the period ending October 2009, an increase of 1.0 percentage point over the same period in 2008. Preliminary data also indicated an increase of 2.1% in average daily room rates during the first 10 months of 2009.

Major meeting and convention activity within the St. John's Census Metropolitan Area was lower in 2009 than in the previous year. While the year started strong with room bookings above 2008 levels, the economic downturn resulted in some cancellations and reductions in the number of delegates attending. The room nights used by major meeting and convention delegates (those booking 50 or more guest rooms per night) is expected to be around 35,700 this year, compared with 41,961 in 2008. The number of conventions/ meetings/events held this year is expected to be 86, up slightly from 78 in 2008.

Employment in the tourism industries (industries that provide key services to tourists) averaged 22,900 during the first 10 months of this year,

[3] This figure is a Department of Tourism, Culture and Recreation estimate based on a review of itinerary information. This estimate counts passengers only once regardless of the number of ports visited. This should be distinguished from "cruise ship passenger visits" which is the industry standard whereby passengers are counted at each port call made by their vessel. In 2009, cruise ship passenger visits totalled 24,828, a decrease of 23.3% over 2008 levels.

Cape Spear Lighthouse, National Historic Site of Canada

Courtesy: Newfoundland and Labrador Tourism / Hans G. Pfaff

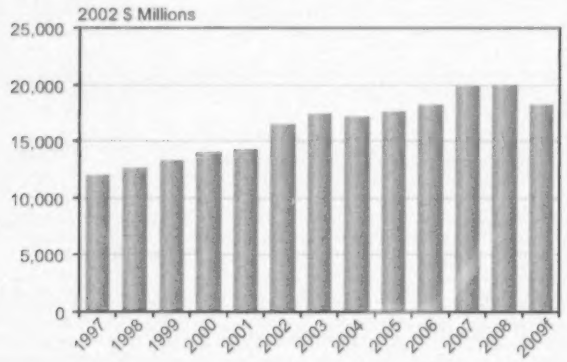
up 1,700 or 7.9% from the same period in 2008. Increases in employment in transportation; recreation and entertainment; travel services; and accommodation more than offset a decline in employment in food and beverage services.

In 2010, the tourism industry is expected to benefit from another milestone when the province celebrates the 400th anniversary of the founding of Cupers Cove Colony (Cupids). The John Guy 1610 plantation site, the first English colony in Canada, has been identified as one of the 10 most important archaeology sites in the country. The 2010 celebration will include historical reenactments, an international conference and various festivals and events culminating in a week of activities August 17-22. A new $5 million visitor interpretation centre, the Cupids Legacy Centre, is currently under construction and is slated to open in early summer 2010.

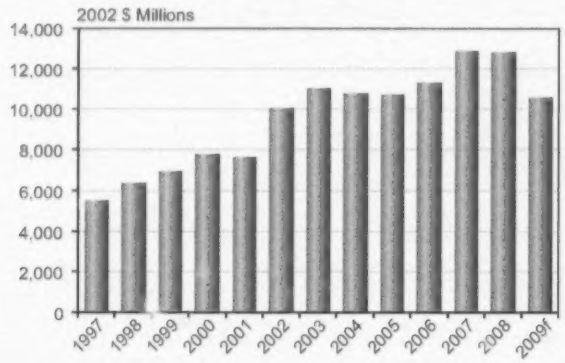
The province will get a unique opportunity to promote its culture and tourism next year when the Juno Awards are held in St. John's. The Canadian Academy of Recording Arts and Sciences will be returning to St. John's for the 2010 Juno Awards from April 15-28, 2010—the Junos were last held in the city in 2002. Thousands of visitors are expected in the region for the Junos and the awards show will be broadcast on a national network to an expected audience of 1.5 million people.

Selected Indicators

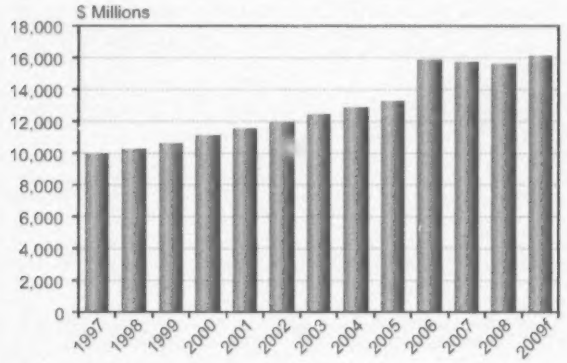
Real GDP



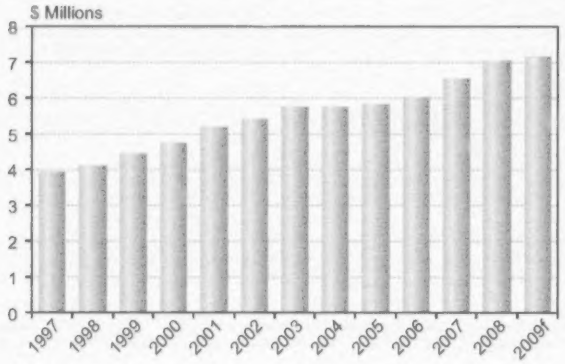
Real Exports



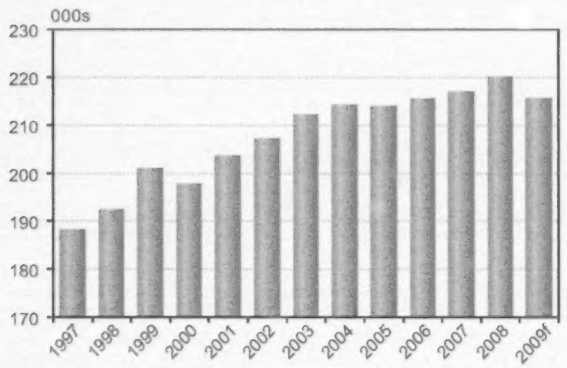
Personal Income



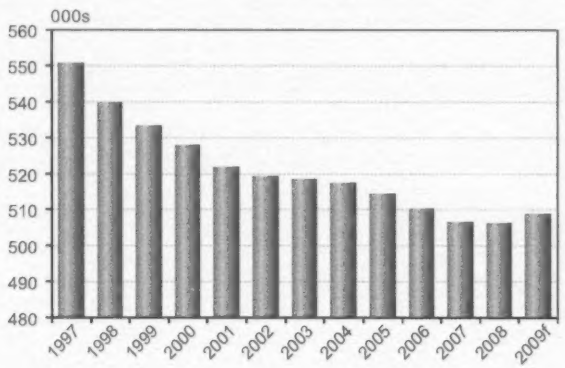
Retail Sales



Employment



Population



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Source: Statistics Canada; Department of Finance

GDP and Employment

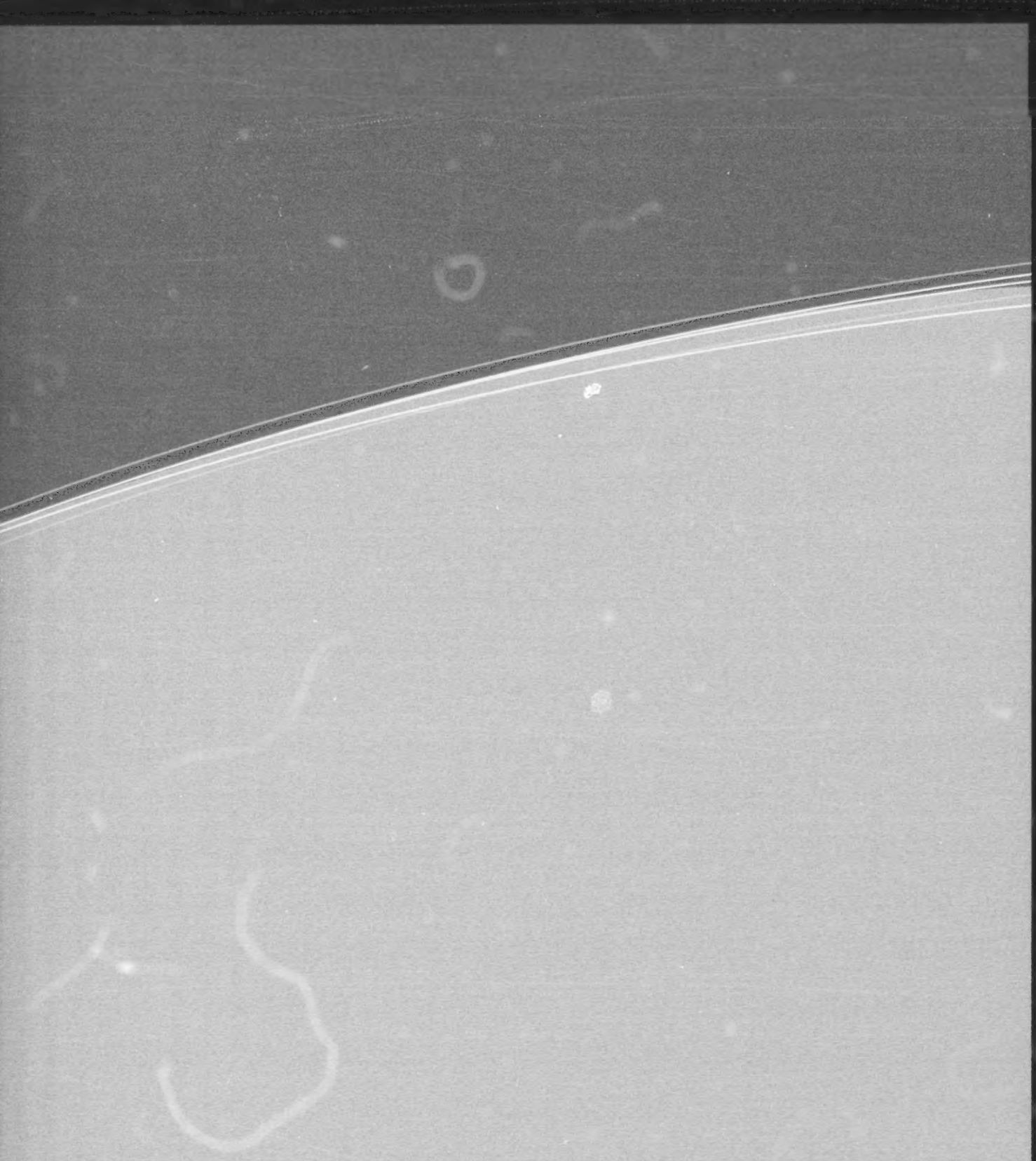
	Gross Domestic Product		Employment	
	2007e		2008	
	$ Millions	% of Total	Person Years, 000s	% of Total
Goods-Producing Sector	15,509.3	58.8%	49.2	22.3%
Agriculture	59.7	0.2%	0.9	0.4%
Forestry & Logging	126.5	0.5%	0.7	0.3%
Fishing, Hunting & Trapping	213.4	0.8%	6.5	3.0%
Mining	3,080.4	11.7%	3.8	1.7%
Oil Extraction and Support Activities*	9,554.1	36.2%	4.9	2.2%
Manufacturing	1,018.0	3.9%	14.1	6.4%
Fish Products	230.8	0.9%	5.5	2.5%
Other	787.2	3.0%	8.6	3.9%
Construction	806.4	3.1%	16.7	7.6%
Utilities	650.8	2.5%	1.6	0.7%
Services-Producing Sector	10,880.1	41.2%	171.1	77.7%
Wholesale Trade	617.2	2.3%	4.5	2.0%
Retail Trade	1,040.6	3.9%	31.2	14.2%
Transportation and Warehousing	608.5	2.3%	10.6	4.8%
Finance, Insurance, Real Estate & Business Support Services	2,613.7	9.9%	15.7	7.1%
Professional, Scientific & Technical Services	462.8	1.8%	8.5	3.9%
Educational Services	1,082.6	4.1%	16.6	7.5%
Health Care & Social Assistance	1,557.9	5.9%	32.5	14.8%
Information, Culture & Recreation	614.9	2.3%	8.3	3.8%
Accommodation & Food Services	366.8	1.4%	13.2	6.0%
Public Administration	1,507.7	5.7%	18.6	8.4%
Other Services	407.4	1.5%	11.6	5.3%
Total, All Industries	**26,389.4**	**100.0%**	**220.3**	**100.0%**

e: estimate, Department of Finance

*Includes support activities for mining and oil and gas

Note: GDP is expressed at basic prices, measuring payments made to the owners of factor inputs in production. This differs from GDP at market prices. The difference is attributable to taxes less subsidies on products. Industry components may not sum to total due to independent rounding.

Source: Statistics Canada; Economic Research and Analysis Division, Department of Finance



The Economic Review 2009
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